

**REPORT OF THE AUDIT OF THE
PIKE COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2003**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE PIKE COUNTY FISCAL COURT

June 30, 2003

The Auditor of Public Accounts has completed the audit of the Pike County Fiscal Court for fiscal year ended June 30, 2003. We have issued an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information. We have issued a qualified opinion on the discretely presented component unit. We qualified our opinion on the discretely presented component unit because management has not included the Pike County Golf Management Corporation, a legally separate component unit, in the County's financial statements. The Pike County Golf Management Corporation should have been presented as part of the discretely presented component unit/opinion unit in the financial statements of the reporting entity of Pike County, Kentucky.

Financial Condition:

The county had total assets of \$47,616,454 as of June 30, 2003. The county had unrestricted net assets of \$7,226,727 in its governmental activities as of June 30, 2003, with total net assets of \$33,907,863. In its enterprise fund, total net cash and cash equivalents were \$1,880,593. Total debt principal as of June 30, 2003, was \$17,883,209 with \$3,298,120 due within the next year.

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Pike County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, Pike County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

Management has not included the Pike County Golf Management Corporation, a legally separate component unit, in the County's financial statements, which accounting principles generally accepted in the United States of America, as applicable to the modified cash basis of accounting, require to be reported as part of the financial data of the reporting entity of Pike County, Kentucky. The Pike County Golf Management Corporation should have been presented as part of the aggregate discretely presented component units.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had the Pike County Golf Management Corporation's financial information been included, the financial statements referred to above present fairly, in all material respects, the financial position of the discretely presented component unit of Pike County, Kentucky, as of June 30, 2003, and the changes in financial position and cash flows thereof for the year then ended in conformity with the basis of accounting described in Note 1.



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In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for Pike County, Kentucky, as of June 30, 2003, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

The county has implemented Governmental Accounting Standards Board Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The management's discussion and analysis and budgetary comparison information are not a required part of the basic financial statements but are supplementary information required by Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pike County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements, are presented for additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the basic financial statements. The combining fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation of the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated April 27, 2005, on our consideration of Pike County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 27, 2005

PIKE COUNTY OFFICIALS

For The Year Ended June 30, 2003

Fiscal Court Members:

William M. Deskins	County Judge/Executive
Jeff Anderson	Magistrate
J. Vernon Johnson	Magistrate
Leo Murphy	Magistrate
Kenneth Robinson	Magistrate
Lloyd Hillman Dotson	Magistrate
Christian Harris	Magistrate

Other Elected Officials:

Howard Keith Hall	County Attorney
Rodney Scott	Jailer
Lillian P. Elliott	County Clerk
David Deskins	Circuit Court Clerk
Charles "Fuzzy" Keese	Sheriff
Lonnie Osborne	Property Valuation Administrator
Russell Roberts	Coroner

Appointed Personnel:

Johnda B. Billiter	County Treasurer
Frankie Stacy	Finance Officer

**Pike County
Management's Discussion and Analysis
June 30, 2003**

As management of Pike County, we offer readers of Pike County's financial statements this narrative overview and analysis of the financial activities of Pike County for the fiscal year ended June 30, 2003. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in our financial statements and notes to the financial statements.

Financial Highlights.

- The assets of Pike County exceeded its liabilities at the close of the fiscal year by \$33,736,121 (*net assets*).
- Pike County governmental activities reported current assets of \$7,704,777 with total assets of \$47,616,454 as of June 30, 2003. In its business-type activities, current assets totaled \$1,880,593 with total assets of \$4,002,886.
- Total debt principal as of June 30, 2003 was \$17,883,209 with \$3,298,120 due within one year.
- At the close of the current fiscal year, Pike County Governmental funds reported current assets of \$7,704,777. Of this amount, \$194,715 has been reserved for encumbrances and \$478,050 reserved for debt service with the remainder classified as unrestricted.
- Pike County's total net debt increased by \$2,823,018 during the current fiscal year. The key factor in this increase is the \$4,250,000 in financing obligations used to repair damaged roads as a result of flooding. Also, \$625,000 in debt was incurred to purchase landfill equipment.
- Two federally declared flooding disasters occurred during the fiscal year, of which both totaled \$8.6 million. There were also two prior flooding disasters that occurred in the previous fiscal year with total damages of \$6.6 million.

Overview of the Financial Statements. This management discussion and analysis is intended to serve as an introduction to Pike County's basic financial statements. Pike County's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements.

The *government-wide financial statements* are designed to provide readers with a broad overview of Pike County's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* presents information on all of Pike County's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of Pike County is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net assets changed during the fiscal year. All changes in net assets are reported on a modified cash basis of accounting. Basis of accounting is a reference to when financial events are recorded, such as the timing for recognizing revenues, expenses, and related assets and liabilities.

Under the county's modified cash basis of accounting, revenues and expenses and related assets and liabilities are recorded when they result from cash transactions, except for the recording of depreciation expense on capital assets in the government-wide financial statements for all activities and in the fund financial statements for proprietary fund activities.

**Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Government-wide Financial Statements. (Continued)

As a result of the use of this modified cash basis of accounting, certain assets and their related revenues (such as amounts billed for services provided, but not collected) and accounts payable (expenses for goods and services received, but not collected) or compensated absences are not recorded.

Both of the government-wide financial statements distinguish functions of the County that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). Pike County's governmental activities include general governmental, protection to persons and property, roads, recreation, and social services. The County has two business-type activities – the operation of a jail canteen and the solid waste program. The government-wide financial statements include not only Pike County itself (known as the primary government), but also legally separate entities, which have a significant operational or financial relationship with the County. Pike County has two such units – the Public Properties Corporation (a blended component unit) and the Interlocal 911 Board (a discretely presented component unit). The Pike County Golf Management Corporation is also a discretely presented component unit of Pike County, but has not been included in the financial statements.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Pike County, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements. All of the funds of Pike County can be divided into two broad categories: *governmental funds* and *proprietary funds*.

Governmental Funds.

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's current financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Pike County maintains nine individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenue, expenditures, and changes in fund balances for the General fund and Road and Bridge fund, both of which are considered major funds by the County. The LGEA fund, Jail fund, Forestry fund, Federal Grant fund, LGED fund, Public Property Corporation Bond fund, and the Maintenance Garage fund are considered non-major funds and are represented in a combined form.

Pike County adopts an annual appropriated budget for its major governmental funds. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with their budgets.

Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Governmental Funds. (Continued)

Proprietary Funds. Proprietary Funds provide the same type of information as the government-wide financial statements. The proprietary fund financial statements provide separate information for the Jail Canteen Fund and the Solid Waste Fund.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis.

Net Assets. As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. This is the first year of implementation, so the comparison to the previous fiscal year will be presented next year.

Table 1
Pike County
Net Assets

	Governmental Activities	Business-Type Activities	Totals
Assets			
Current Assets	\$ 7,704,777	\$ 1,880,593	\$ 9,585,370
Capital Assets	39,911,677	2,122,293	42,033,970
Total Assets	\$ 47,616,454	\$ 4,002,886	\$ 51,619,340
Liabilities			
Current and Other Liabilities	2,275,840	1,022,280	3,298,120
Long-term Debt	11,432,751	3,152,338	14,585,089
Total Liabilities	\$ 13,708,591	\$ 4,174,618	\$ 17,883,209
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 26,203,086	\$ (2,052,325)	\$ 24,150,761
Restricted	478,050	1,482,705	1,960,755
Unrestricted	7,226,727	397,888	7,624,615
Total Net Assets	\$ 33,907,863	\$ (171,732)	\$ 33,736,131

Changes in Net Assets. GASB 34 requires management to include certain comparisons when they are available. These include prior and current year comparisons of changes in ending net assets, asset and liability position, general revenues by major source program revenues, and program expenses by function, for both governmental activities and business-type activities. This is the first year of implementation and these schedules will be presented next year.

**Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Financial Analysis of the County's Funds.

As noted earlier, Pike County uses fund accounting to ensure and demonstrate compliance with legal and statutory requirements.

Governmental Funds Overview. The focus of Pike County's governmental funds is to provide information on current inflows, outflows, and balances of spendable resources. Such information is useful in assessing the County's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the June 2003 fiscal year, the combined ending fund balance of County governmental funds was \$7,704,777. Approximately 91% (\$7,032,012) of this consists of unreserved fund balance, which is available as working capital and for current spending in accordance with the purposes of the specific funds. The remainder of fund balance (\$672,765) is reserved to indicate that it is not available for new spending because it is committed for encumbrances and debt service.

The County has 2 major governmental funds. These are the 1) General fund, and 2) the Road and Bridge fund. There are 7 non-major governmental funds. These are the 1) Jail fund, 2) LGEA fund, 3) Maintenance Garage fund, 4) LGED fund, 5) Public Property Corporation Bond fund, 6) Forestry fund, and 7) Federal Grants fund.

1. The General fund is the chief operation fund of Pike County. At the end of the June 30, 2003 fiscal year, unreserved fund balance of the General Fund was \$885,353 and reserved fund balance was \$50,830.
2. The Road and Bridge fund is the fund related to County road and bridge construction & maintenance. The Road and Bridge fund had \$4,259,582 in fund balance at June 30, 2003. The fiscal year 2003 expenditures for road projects were \$6,938,848.
3. The Jail fund is used to account for the operation of the County's detention center. The Jail fund had a fund balance at June 30, 2003 of \$54,332, of which all was unreserved. The Jail fund received \$1,141,653 for services, primarily for housing prisoners. Transfers from other funds totaling \$879,259 contributed to the jail operations.
4. The Local Government Economic Assistance fund consists of coal and mineral severance tax monies used to maintain coal haul roads and supplement other public & environmental protection programs. The LGEA fund had a fund balance of \$554,144 at June 30, 2003.
5. The Maintenance Garage fund is used to service equipment of the Road and Solid Waste Departments. It had a fund balance of \$3,362 as of June 30, 2003. Revenues for this fund consist mainly of transfers from the Road and Bridge and Solid Waste funds.
6. The Local Government Economic Development fund is comprised of recaptured grant funds and had a fund balance of \$1,419,042. These funds are to be used for economic development to aid new industry relocate to Pike County.
7. The Public Property Corporation Bond fund is a legally separate entity established to provide long-term debt service for the Detention Center. Debt service is provided through annual transfers from the General fund in the amount of the debt service requirements for the year. Outstanding debt on the Detention Center totals \$7,256,735, which includes principal payments and interest.

**Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Financial Analysis of the County's Funds. (Continued)

8. The Forestry fund had a fund balance of \$82 as of June 30, 2003. Payments from this fund are based on the total private acres @ \$.02 per acre. This is paid annually to the Kentucky Division of Forestry.
9. The Federal Grant fund is used to account for federal monies received. The county received \$316,652 in federal funds for various ongoing projects. Federal monies from FEMA for declared disasters are accounted for in the Road and Bridge fund.

Proprietary Funds Overview. The County's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Pike County has two enterprise-type proprietary funds, the Solid Waste fund and the Jail Canteen fund.

1. The Solid Waste fund allows for the collection and disposal of refuse from residents of Pike County. Also included in this fund is the operation of a county landfill. The Solid Waste total net assets at the end of the June 30, 2003 fiscal year were (\$302,768). The Fords Branch Landfill Closing activity is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure. Estimated closure costs total \$2,500,000 and estimated post-closure costs total \$10,000 for 30 years. As of June 30, 2003, the Solid Waste fund had a restricted balance of \$1,749,557 in cash, and it is anticipated that sufficient funds will be available to pay closure and post-closure costs.
2. The Jail Canteen fund maintained by the jailer allows the sale of snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. The Jail Canteen's total net assets (all unrestricted) at June 30, 2003 were \$131,036.

General Fund Budgetary Highlights. Over the course of the fiscal year, the County revised the General Fund budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund decreased revenues by \$7,463,499 from the original budget. This was due primarily to the \$6.9 million federal monies for the East Kentucky Exposition Center that was originally supposed to pass-through Pike County, but did not.

Capital Assets and Debt Administration.

Capital Assets. Pike County's investment in capital assets for its governmental and business-type activities as of June 30, 2003, totals \$42,033,970 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings, machinery and equipment, vehicles, and infrastructure.

Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)

Capital Assets and Debt Administration. (Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 280,000	\$ 50,000		\$ 330,000
Total Capital Assets Not Being Depreciated	280,000	50,000		330,000
Capital Assets, Being Depreciated:				
Buildings	14,522,700	62,289		14,584,989
Vehicles and Equipment	5,343,568	251,161		5,594,729
Infrastructure	98,062,769	623,539		98,686,308
Total Capital Assets Being Depreciated	117,929,037	936,989		118,866,026
Less Accumulated Depreciation For:				
Buildings	(5,950,711)	(357,763)		(6,308,474)
Vehicles and Equipment	(2,877,722)	(354,221)		(3,231,943)
Infrastructure	(65,868,822)	(3,875,110)		(69,743,932)
Total Accumulated Depreciation	(74,697,255)	(4,587,094)		(79,284,349)
Total Capital Assets, Being Depreciated, Net	43,231,782	(3,650,105)		39,581,677
Government Activities Capital Assets, Net	<u>\$ 43,511,782</u>	<u>\$ (3,600,105)</u>	<u>\$ 0</u>	<u>\$ 39,911,677</u>
<u>Business-type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 4,523,602	\$ 576,788	\$	\$ 5,100,390
Less Accumulated Depreciation For:				
Vehicles and Equipment	(2,661,954)	(316,143)		(2,978,097)
Business-type Activities Capital Assets, Net	<u>\$ 1,861,648</u>	<u>\$ 260,645</u>	<u>\$ 0</u>	<u>\$ 2,122,293</u>
<u>Governmental Activities:</u>				
General Government			\$ 326,111	
Protection to Persons and Property			169,377	
General Health and Sanitation			4,172	
Recreation and Culture			17,073	
Roads, Including Depreciation of General Infrastructure Assets			4,070,361	
Total Depreciation Expense - Governmental Activities			<u>\$ 4,587,094</u>	
<u>Business-type Activities:</u>				
Solid Waste Vehicles and Equipment			<u>\$ 316,143</u>	
Total Depreciation Expense - Business Activities			\$ 316,143	

**Pike County
Management's Discussion and Analysis
June 30, 2003
(Continued)**

Long-term Debt. As of June 30, 2003, Pike County had total debt outstanding of \$17,883,209 all of which is debt backed by the full faith and credit of Pike County.

Pike County's total net debt increased by \$ 2,823,018 (18.7 percent) during the past fiscal year, primarily due to the \$4,250,000 in funds borrowed for road repair projects.

The State of Kentucky limits the amount of general obligation debt that a unit of government can issue to 2 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Pike County is \$47,562,463. The County had no bonds authorized but un-issued at June 30, 2003.

Economic Factors and Next Year's Budgets and Rates.

The following key economic indicators reflect the growth and prosperity of Pike County.

- Pike County's population has decreased only 5.38% from 72,419 in 1990 to 68,521 in 2000, while the average earnings per job has increased 24.92%, from \$21,014 in 1990 to \$26,251 in 2000.
- The mining industry has experienced a significant decline in jobs in Pike County. Total mining industry jobs declined 55% over the last 20 years, from 9,953 in 1980 to 4,466 in 2000.
- Coal and mineral severance tax to be received in fiscal year 2004 by Pike County was budgeted lower than normal because of a decrease in coal production.
- In April 2004, the Sykes facility closed operations in Pike County to move overseas, resulting in a job loss of 324 jobs in Pike County.
- Pike County obtained \$4.25 million in leases to fund substantial repairs to County-owned roads as a result of recent flooding.
-

Requests For Information. This report is designed to provide a general overview for all those with an interest in the County's finances and to demonstrate the County's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Director of Finance, Pike County Courthouse, 146 Main Street, Pikeville, KY 41501.

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF NET ASSETS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Primary Government			Component Unit-
	Governmental	Business-Type		Pike County
	Activities	Activities	Totals	Interlocal 911 Board
ASSETS				
Current Assets:				
Cash and Cash Equivalents	\$ 7,704,777	\$ 1,880,593	\$ 9,585,370	\$ 104,062
Total Current Assets	7,704,777	1,880,593	9,585,370	104,062
Noncurrent Assets:				
Capital Assets - Net of Accumulated Depreciation				
Land and Land Improvements	330,000		330,000	
Buildings	8,276,515		8,276,515	
Vehicles and Equipment	2,362,786	2,122,293	4,485,079	52,325
Infrastructure Assets - Net of Accumulated Depreciation	28,942,376		28,942,376	
Total Noncurrent Assets	39,911,677	2,122,293	42,033,970	52,325
Total Assets	47,616,454	4,002,886	51,619,340	156,387
LIABILITIES				
Current Liabilities:				
Bonds Payable	215,000		215,000	
Financing Obligations Payable	2,060,840	1,022,280	3,083,120	
Total Current Liabilities	2,275,840	1,022,280	3,298,120	
Noncurrent Liabilities:				
Bonds Payable	4,535,000		4,535,000	
Financing Obligations Payable	6,897,751	3,152,338	10,050,089	
Total Noncurrent Liabilities	11,432,751	3,152,338	14,585,089	
Total Liabilities	13,708,591	4,174,618	17,883,209	
NET ASSETS				
Invested in Capital Assets, Net of Related Debt	26,203,086	(2,052,325)	24,150,761	52,325
Restricted For:				
Debt Service	478,050	1,482,705	1,960,755	
Unrestricted	7,226,727	397,888	7,624,615	104,062
Total net assets	\$ 33,907,863	\$ (171,732)	\$ 33,736,131	\$ 156,387

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

		Program Revenues Received		
Functions/Programs Reporting Entity	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General Government	\$ 7,795,287	\$ 95,402	\$ 294,289	\$ 1,200,000
Protection to Persons and Property	2,667,977	146,067	1,025,226	100,000
General Health and Sanitation	2,483,566	33,150		1,990,158
Social Services	803,856	77	331,016	
Recreation and Culture	656,171		10,000	150,000
Roads	9,436,648		5,424,827	4,030,238
Airports	76,372			
Road Facilities	141,938			
Debt Service	441,682			
Capital Projects	1,249,266			
Total Governmental Activities	25,752,763	274,696	7,085,358	7,470,396
Business-type Activities:				
Solid Waste	5,024,949	4,756,291	512,779	
Jail Canteen	223,022	243,083		
Total Business-type Activities	5,247,971	4,999,374	512,779	
Total Primary Government	\$ 31,000,734	\$ 5,274,070	\$ 7,598,137	\$ 7,470,396
Component Unit:				
Pike County Inter-Local 911 Board	\$ 537,966	\$ 469,071		
Total Component Units	\$ 537,966	\$ 469,071	\$	\$

General Revenues:

Taxes:
Real Property Taxes
Personal Property Taxes
Motor Vehicle Taxes
Other Taxes
Excess Fees
Miscellaneous Revenues
Accrued Interest Received
Transfers

Total General Revenues and Transfers
Change in Net Assets
Net Assets - Beginning (Restated)
Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

Net (Expenses) Revenues and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-Type Activities	Totals	Component Unit
\$ (6,205,596)	\$	\$ (6,205,596)	\$
(1,396,684)		(1,396,684)	
(460,258)		(460,258)	
(472,763)		(472,763)	
(496,171)		(496,171)	
18,417		18,417	
(76,372)		(76,372)	
(141,938)		(141,938)	
(441,682)		(441,682)	
(1,249,266)		(1,249,266)	
(10,922,313)		(10,922,313)	
	244,121	244,121	
	20,061	20,061	
	264,182	264,182	
(10,922,313)	264,182	(10,658,131)	
			(68,895)
			(68,895)
1,827,660		1,827,660	
714,048		714,048	
503,708		503,708	
1,106,333		1,106,333	
835,738		835,738	
2,397,749		2,397,749	
121,412	21,140	142,552	
573,363	(573,363)		1,936
8,080,011	(552,223)	7,527,788	1,936
(2,842,302)	(288,041)	(3,130,343)	(66,959)
36,750,164	116,309	36,866,473	223,346
\$ 33,907,862	\$ (171,732)	\$ 33,736,130	\$ 156,387

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>General Fund</u>	<u>Road And Bridge Fund</u>	<u>Non- Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and Cash Equivalents	936,183	4,259,582	2,509,012	7,704,777
Total assets	<u>\$ 936,183</u>	<u>\$ 4,259,582</u>	<u>\$ 2,509,012</u>	<u>\$ 7,704,777</u>
FUND BALANCES				
Fund Balances:				
Reserved for:				
Encumbrances	\$ 50,830	\$ 80,771	\$ 63,114	\$ 194,715
Debt Service			478,050	478,050
Unreserved:				
General Fund	885,353			885,353
Special Revenue Funds		4,178,811	1,967,848	6,146,659
Total Fund Balances	<u>\$ 936,183</u>	<u>\$ 4,259,582</u>	<u>\$ 2,509,012</u>	<u>\$ 7,704,777</u>

Reconciliation of the Balance Sheet - Governmental Funds to Statement of Changes In Net Assets:

Total Fund Balances	\$ 7,704,777
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	119,196,026
Accumulated depreciation	(79,284,349)
Liabilities:	
Bonds payable	(4,750,000)
Financing obligations payable	(8,958,591)
Net Assets Of Governmental Activities	<u>\$ 33,907,863</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	General Fund	Road And Bridge Fund	Non- Major Funds	Total Governmental Funds
REVENUES				
Taxes	\$ 3,882,332	52	6,542	\$ 3,888,926
In Lieu Tax Payments	46,014			46,014
Excess Fees	835,738			835,738
Licenses and Permits	216,862			216,862
Intergovernmental	3,809,706	4,009,812	7,295,475	15,114,993
Charges for Services	33,945		77	34,022
Miscellaneous	93,747	95,217	1,881,701	2,070,665
Interest	84,639	9,471	35,767	129,877
Total Revenues	<u>9,002,983</u>	<u>4,114,552</u>	<u>9,219,562</u>	<u>22,337,097</u>
EXPENDITURES				
General Government	4,386,472		308,839	4,695,311
Protection to Persons and Property	528,964		1,973,412	2,502,376
General Health and Sanitation	1,822,806		700,017	2,522,823
Social Services	166,847		641,219	808,066
Recreation and Culture	494,062		145,036	639,098
Roads	95,958	6,060,991		6,156,949
Airports	76,372			76,372
Road Facilities			1,078,927	1,078,927
Debt Service	9,333		834,821	844,154
Capital Projects	777,181		472,085	1,249,266
Administration	1,184,355	877,858	806,652	2,868,865
Total Expenditures	<u>9,542,350</u>	<u>6,938,849</u>	<u>6,961,008</u>	<u>23,442,207</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(539,367)</u>	<u>(2,824,297)</u>	<u>2,258,554</u>	<u>(1,105,110)</u>
Other Financing Sources (Uses)				
Financing Obligation Proceeds	75,000	4,250,000		4,325,000
Transfers From Other Funds	1,185,000	3,267,052	2,314,309	6,766,361
Transfers To Other Funds	(1,815,365)	(699,600)	(3,678,032)	(6,192,997)
Total Other Financing Sources (Uses)	<u>(555,365)</u>	<u>6,817,452</u>	<u>(1,363,723)</u>	<u>4,898,364</u>
Net Change in Fund Balances	(1,094,732)	3,993,155	894,831	3,793,254
Fund Balances - Beginning	2,030,915	266,426	1,614,181	3,911,522
Fund Balances - Ending	<u>\$ 936,183</u>	<u>\$ 4,259,581</u>	<u>\$ 2,509,012</u>	<u>\$ 7,704,776</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

PIKE COUNTY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

Reconciliation to the Statement of Activities:

Net Change in Fund Balances - Total Governmental Funds	\$ 3,793,254
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay	986,989
Depreciation expense	(4,587,094)
Financing Obligation Proceeds	(4,325,000)

Lease and bond principal payments are expensed in the governmental funds as a use of current financial resources.

KACO financing obligations	1,084,549
Bond principal payment	205,000

Change in Net Assets of Governmental Activities	\$ (2,842,302)
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PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Solid Waste Fund	Jail Canteen Fund	Totals
Assets			
Current Assets:			
Cash and Cash Equivalents	\$ 1,749,557	\$ 131,036	\$ 1,880,593
Total Current Assets	<u>1,749,557</u>	<u>131,036</u>	<u>1,880,593</u>
Noncurrent Assets:			
Capital Assets:			
Vehicles and Equipment	5,100,390		5,100,390
Less Accumulated depreciation	<u>(2,978,097)</u>		<u>(2,978,097)</u>
Total Noncurrent Assets	<u>2,122,293</u>		<u>2,122,293</u>
Total Assets	<u>3,871,850</u>	<u>131,036</u>	<u>4,002,886</u>
Liabilities			
Current Liabilities:			
Financing Obligations Payable	1,022,280		1,022,280
Total Current Liabilities	<u>1,022,280</u>		<u>1,022,280</u>
Noncurrent Liabilities:			
Financing Obligation Payable	3,152,338		3,152,338
Total Noncurrent Liabilities	<u>3,152,338</u>		<u>3,152,338</u>
Total Liabilities	<u>4,174,618</u>		<u>4,174,618</u>
Net Assets			
Invested in Capital Assets,			
Net of Related Debt	(2,052,325)		(2,052,325)
Restricted for Debt Service	1,482,705		1,482,705
Unrestricted	266,852	131,036	397,888
Total Net Assets	<u>\$ (302,768)</u>	<u>\$ 131,036</u>	<u>\$ (171,732)</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Business-Type Activites - Enterprise Funds		
	Solid Waste Fund	Jail Canteen Fund	Totals
Operating Revenues			
Operating Grants	\$ 512,779	\$	\$ 512,779
Garbage Collection	2,718,333		2,718,333
Landfill User Fees	1,978,115		1,978,115
Recycling	8,888		8,888
Miscellaneous	50,955		50,955
Canteen Receipts		243,083	243,083
Total Operating Revenues	<u>5,269,070</u>	<u>243,083</u>	<u>5,512,153</u>
Operating Expenses			
Office Materials and Supplies	43,242		43,242
Office Expense	39,218		39,218
Maintenance Expense	281,905		281,905
Grant Expenses	210,975		210,975
Uniforms	7,595		7,595
Payroll Expense	1,958,912		1,958,912
Fringe benefits	1,147,475		1,147,475
Landfill Closure Costs	771,792		771,792
Cost of Sales		177,896	177,896
Educational and Recreational		45,126	45,126
Depreciation	316,143		316,143
Miscellaneous	31,447		31,447
Total Operating Expenses	<u>4,808,704</u>	<u>223,022</u>	<u>5,031,726</u>
Operating Income (Loss)	<u>460,366</u>	<u>20,061</u>	<u>480,427</u>
Nonoperating Revenues (Expenses)			
Interest Income	21,140		21,140
Lease Payments (Interest Expense)	(216,245)		(216,245)
Total Nonoperating Revenues (Expenses)	<u>(195,105)</u>		<u>(195,105)</u>
Net Income (Loss) Before Transfers	265,261	20,061	285,322
Transfers In	50,357		50,357
Transfers Out	(623,720)		(623,720)
Change In Net Assets	(308,102)	20,061	(288,041)
Total Net Assets - Beginning (Restated)	5,334	110,975	116,309
Total Net Assets - Ending	<u>\$ (302,768)</u>	<u>\$ 131,036</u>	<u>\$ (171,732)</u>

The accompanying notes are an integral part of the financial statements.

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PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	<u>Business-Type Activites - Enterprise Funds</u>		
	<u>Solid Waste Fund</u>	<u>Jail Canteen Fund</u>	<u>Totals</u>
Cash Flows From Operating Activities			
Operating Grants	\$ 512,779	\$	\$ 512,779
Garbage Collection	2,718,333		2,718,333
Landfill User Fees	1,978,115		1,978,115
Recycling	8,888		8,888
Miscellaneous	50,955		50,955
Receipts From Customers		243,083	243,083
Payments to Vendors	(1,386,174)		(1,386,174)
Payments to Employees	(1,958,912)		(1,958,912)
Payments of Benefits on Behalf of Employees	(1,147,475)		(1,147,475)
Cost of Sales		(177,896)	(177,896)
Educational and Recreational		(45,126)	(45,126)
Net Cash Provided By Operating Activities	<u>776,509</u>	<u>20,061</u>	<u>796,570</u>
Cash Flows From Noncapital Financing Activities			
Transfers In From Other Funds	50,357		50,357
Transfers To Other Funds	(623,720)		(623,720)
Net Cash Provided By Noncapital Financing Activities	<u>(573,363)</u>	<u></u>	<u>(573,363)</u>
Cash Flows From Capital and Related Financing Activities			
Lease Income	625,000		625,000
Vehicles & Equipment	(576,788)		(576,788)
Principal Paid On Capital Debt	(868,256)		(868,256)
Interest Paid On Capital Debt	(185,412)		(185,412)
Net Cash (Used) Provided By Capital and Related Financing Activities	<u>(1,005,456)</u>	<u></u>	<u>(1,005,456)</u>
Cash Flows From Investment Activities			
Interest Earned	<u>21,140</u>	<u></u>	<u>21,140</u>
Net Cash Provided By Investment Activities	<u>21,140</u>	<u></u>	<u>21,140</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(781,170)	20,061	(761,109)
Cash and Cash Equivalents - July 1, 2002	<u>2,530,727</u>	<u>110,975</u>	<u>2,641,702</u>
Cash and Cash Equivalents - June 30, 2003	<u>\$ 1,749,557</u>	<u>\$ 131,036</u>	<u>\$ 1,880,593</u>

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND - MODIFIED CASH BASIS
For The Year Ended June 30, 2003
(Continued)

	<u>Business-Type Activites - Enterprise Funds</u>		
	<u>Solid Waste Fund</u>	<u>Jail Canteen Fund</u>	<u>Totals</u>
Reconciliation of Operating Income to			
Net Cash Provided (Used) by Operating Activities			
Operating Income (Loss)	\$ 460,366	\$ 20,061	\$ 480,427
Adjustments to Reconcile Operating Income To Net Cash Provided (Used) By Operating Activities			
Depreciation Expense	<u>316,143</u>	<u></u>	<u>316,143</u>
 Total Cash Provided By Operating Activities	 <u>\$ 776,509</u>	 <u>\$ 20,061</u>	 <u>\$ 796,570</u>

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES
TO THE FINANCIAL STATEMENTS**

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PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2003

Note 1. Summary of Significant Accounting Policies

A. Basis of Presentation

The county presents its government wide and fund financial statements utilizing a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

B. Reporting Entity

The financial statements of Pike County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes an organization that is legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or the organization's exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. All other component units are discretely presented.

Blended Component Unit

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

Pike County Public Properties Corporation

The fiscal court appoints a voting majority of the Public Properties Corporation's governing board and has the ability to impose its will on the governing board. In addition, the fiscal court is financially accountable and legally obligated for the debt of the Public Properties Corporation.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Reporting Entity (Continued)

Discretely Presented Component Unit

The component units' column in the government wide financial statements includes the data of the following organization. It is reported on the Statement of Net Assets and the Statement of Activities in a separate column that is labeled as "Component Unit" to emphasize this organization's separateness from the fiscal court's primary government.

Pike County Interlocal 911 Board

The Pike County Interlocal 911 Board (the Board) is a legally separate entity established to provide emergency response services to Pike County. The Board's members are appointed independently of the Pike County Fiscal Court, and the Board's governing body is substantially different from that of Fiscal Court. However, the Fiscal Court is financially accountable for the Board because of the Fiscal Court must approve rate changes established by the Board. This financial accountability requires management to include the Board as a component unit. The Board is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Board is presented discretely. The Pike County Interlocal 911 Board did not have a separate report issued and therefore, its fund financial information is included as supplementary information in this report.

C. Pike County Elected Officials Not Part Of Pike County, Kentucky

Kentucky law provides for election of the below officials from the geographic area constituting Pike County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Pike County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

D. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories: 1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets; 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation; 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function; 2) operating grants and contributions; and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major funds. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as a major fund.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

The primary government reports the following major governmental funds:

General Fund - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office for Local Development requires a separate fund or where management requires that a separate fund be used for some function.

Road and Bridge Fund - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office for Local Development requires the Fiscal Court to maintain these receipts and expenditures separately from the General Fund.

The government also has the following non-major funds: Jail Fund, Local Government Economic Assistance Fund, Federal Grant Fund, Forestry Fund, Local Government Economic Development Fund, Maintenance Garage Fund which are special revenue funds, and Public Properties Corporation Bond Fund, which is a debt service fund. Special revenue funds are used to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes. Debt Service funds are used to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Government-wide and Fund Financial Statements (Continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's proprietary funds are garbage collection fees and landfill user fees in the Solid Waste Fund and charges to customers for sales in the Jail Canteen Fund. Operating expenses for the proprietary funds include payroll, lease payments, depreciation on capital assets, and administrative expenses in the Solid Waste Fund and the cost of sales and services and administrative expenses in the Jail Canteen Fund. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or Interpretations issued after November 20, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.

The government reports the following major proprietary funds:

Solid Waste Fund – The solid waste fund operations are authorized by the Fiscal Court. The Solid Waste fund allows for the collection and disposal of garbage from residents of Pike County. Also included in this fund is the operation of a county landfill. The Fords Branch Landfill Closing activity is included in the operations of the Solid Waste fund. The Fords Branch Landfill Closing account collects funds during the active life of the landfill to cover final closure costs and post-closure maintenance and monitoring costs 30 years after final closure.

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

Presentation of Component Unit

The financial statements present the following discretely presented component unit: Pike County Interlocal 911 Board.

Pike County Interlocal 911 Board labeled as "component unit" is presented in a separate column on the Statement of Net Assets and the Statement of Activities to emphasize this organization's separateness from the fiscal court's primary government.

E. Deposits and Investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

E. Deposits and Investments (Continued)

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Capital Assets

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 25,000	10-60
Buildings and Building Improvements	\$ 50,000	10-75
Machinery and Equipment	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 25,000	10-50

G. Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and KACO financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period.

The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

H. Fund Equity

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances may be divided into designated and undesignated portions. Designations represent the fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the statement of net assets and statement of activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

I. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

J. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the following are considered related organizations of Pike County Fiscal Court: Mountain Water District, Pike County Housing Authority, and the Pike County Extension Board.

K. Jointly Governed Organization

Pike County Fiscal Court, in conjunction with the City of Pikeville, has created the Pikeville-Pike County Airport Board (the Board). The Board is composed of six appointed members, three appointed from each of the two participating governments. The fiscal court appropriated \$74,645 to the Board for operating expenses. The Board reimburses the fiscal court for a portion of these operating expenses. The fiscal court had not yet received, but expected reimbursement from the Board in the amount of \$48,847 at fiscal year ended June 30, 2003. We have noted this expected reimbursement in Note 3 of our notes to financial statements.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 2. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2003, the county's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the county's agent in the county's name.

Note 3. Reimbursements of On-behalf Payments

The Pike County Fiscal Court furnishes payroll processing and accounts payable services to the Pike County Golf Management Corporation, the Pike County Interlocal 911 Board and the Pikeville-Pike County Airport Board. The Fiscal Court is reimbursed from these organizations. The amounts noted below are not included on the Statement of Net Assets. As of June 30, 2003, the total amount due to the Fiscal Court is as follows:

Pike County Golf Management Corporation	\$ 19,752
Pike County Interlocal 911 Board	75,739
Pikeville-Pike County Airport Board	<u>48,847</u>
Total Reimbursement Due To The Pike County Fiscal Court For Payroll and Accounts Payable and Lease Payments	<u><u>\$ 144,338</u></u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 4. Capital Assets

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital Assets Not Being Depreciated:				
Land and Land Improvements	\$ 280,000	\$ 50,000		\$ 330,000
Total Capital Assets Not Being Depreciated	280,000	50,000		330,000
Capital Assets, Being Depreciated:				
Buildings	14,522,700	62,289		14,584,989
Vehicles and Equipment	5,343,568	251,161		5,594,729
Infrastructure	98,062,769	623,539		98,686,308
Total Capital Assets Being Depreciated	117,929,037	936,989		118,866,026
Less Accumulated Depreciation For:				
Buildings	(5,950,711)	(357,763)		(6,308,474)
Vehicles and Equipment	(2,877,722)	(354,221)		(3,231,943)
Infrastructure	(65,868,822)	(3,875,110)		(69,743,932)
Total Accumulated Depreciation	(74,697,255)	(4,587,094)		(79,284,349)
Total Capital Assets, Being Depreciated, Net	43,231,782	(3,650,105)		39,581,677
Government Activities Capital Assets, Net	<u>\$ 43,511,782</u>	<u>\$ (3,600,105)</u>	<u>\$ 0</u>	<u>\$ 39,911,677</u>
<u>Business-type Activities:</u>				
Capital Assets, Being Depreciated:				
Vehicles and Equipment	\$ 4,523,602	\$ 576,788	\$	\$ 5,100,390
Less Accumulated Depreciation For:				
Vehicles and Equipment	(2,661,954)	(316,143)		(2,978,097)
Business-type Activities Capital Assets, Net	<u>\$ 1,861,648</u>	<u>\$ 260,645</u>	<u>\$ 0</u>	<u>\$ 2,122,293</u>
<u>Governmental Activities:</u>				
General Government			\$ 326,111	
Protection to Persons and Property			169,377	
General Health and Sanitation			4,172	
Recreation and Culture			17,073	
Roads, Including Depreciation of General Infrastructure Assets			4,070,361	
Total Depreciation Expense - Governmental Activities			<u>\$ 4,587,094</u>	
<u>Business-type Activities:</u>				
Solid Waste Vehicles and Equipment			\$ 316,143	
Total Depreciation Expense - Business Activities			\$ 316,143	

Note 4. Capital Assets (Continued)

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

	Reporting Entity			
	Beginning Balance	Increases	Decreases	Ending Balance
<u>Component Unit Activities:</u>				
Capital Assets Being Depreciated:				
Vehicles and Equipment	\$ 100,387			\$ 100,387
Less Accumulated Depreciation For:				
Vehicles and Equipment	(44,031)	(4,031)		(48,062)
Component Unit Activities Capital Assets, Net	\$ 56,356	\$ 0	\$ 0	\$ 52,325

Component Unit Activities:

Protection to Persons and Property	\$ 4,031
Total Depreciation Expense - Component Unit Activities	<u>\$ 4,031</u>

Note 5. Financing Obligations

Governmental Activities:

- A. On June 17, 1991, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for courthouse renovations. The principal amount of the lease was \$5,000,000. The agreement requires variable monthly payments for 25 years to be paid in full July 1, 2016. The principal balance of the agreement was \$3,574,727 as of June 30, 2003. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. Lease payments for the remaining years are:

Fiscal Year Ending June 30	Scheduled Interest And Other Fees	Scheduled Principal
2004	\$ 157,623	\$ 187,924
2005	148,899	199,416
2006	139,641	211,610
2007	129,818	224,550
2008	99,119	238,281
2009-2013	427,488	1,428,685
2014-2016	87,333	1,084,261
Totals	<u>\$ 1,189,921</u>	<u>\$ 3,574,727</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

- B. On June 29, 1993, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for additional courthouse renovations and furniture. The principal amount of the lease was \$600,000. The agreement requires variable monthly payments for 25 years to be paid in full March 1, 2018. The principal balance of the agreement was \$433,008 as of June 30, 2003. The county refinanced the lease agreement for a lower interest rate in the fiscal year 1999-2000. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 16,465	\$ 21,313
2005	15,616	22,292
2006	14,731	23,316
2007	13,806	24,388
2008	12,837	25,508
2009-2013	60,869	146,233
2014-2018	23,571	169,958
Totals	<u>\$ 157,895</u>	<u>\$ 433,008</u>

- C. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment and vehicles. The principal amount of the lease was \$925,000. The agreement requires variable monthly payments for 5 years to be paid in full December 20, 2004. The principal balance of the agreement was \$298,150 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 10,975	\$ 197,495
2005	1,535	100,655
Totals	<u>\$ 12,510</u>	<u>\$ 298,150</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

- D. On November 20, 2000, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road equipment. The principal amount of the lease was \$1,028,500. The agreement requires variable monthly payments for 5 years to be paid in full March 20, 2006. The principal balance of the agreement was \$641,500 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 26,509	\$ 205,000
2005	16,557	214,000
2006	6,187	222,500
Totals	<u>\$ 49,253</u>	<u>\$ 641,500</u>

- E. On October 1, 2001, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for the acquisition of eight 2001 Ford Crown Victorias. The principal amount of the lease was \$180,000. This agreement requires variable monthly payments for four years to be paid in full January 20, 2006. The principal balance of the agreement was \$135,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 4,187	\$ 45,000
2005	2,566	45,000
2006	945	45,000
Totals	<u>\$ 7,698</u>	<u>\$ 135,000</u>

- F. On February 5, 2002, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for acquisition of seven computer systems. The principal amount of the lease was \$8,500. The agreement requires variable monthly payments for 3 years to be paid in full March 20, 2004. The principal balance of the agreement was \$3,252 as of June 30, 2003.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 53	\$ 3,252
Totals	<u>\$ 53</u>	<u>\$ 3,252</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

Governmental Activities (Continued)

- G. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for road improvements. The principal amount of the lease was \$4,250,000. The agreement requires variable monthly payments for 3 years to be paid in full February 20, 2006. The principal balance of the agreement was \$3,797,954 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 124,595	\$ 1,385,856
2005	69,245	1,431,574
2006	<u>14,514</u>	<u>980,524</u>
Totals	<u>\$ 208,354</u>	<u>\$ 3,797,954</u>

- H. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for 911 vehicles. The principal amount of the lease was \$75,000. The agreement requires variable monthly payments for 5 years to be paid in full on January 20, 2008. The principal balance of the agreement was \$75,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 2,423	\$ 15,000
2005	1,895	15,000
2006	1,366	15,000
2007	837	15,000
2008	<u>236</u>	<u>15,000</u>
Totals	<u>\$ 6,757</u>	<u>\$ 75,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

Business-Type Activities

- I. On December 18, 1998, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for solid waste vehicles and equipment. The principal amount of the lease was \$1,000,000. The agreement requires variable monthly payments for 5 years to be paid in full February 1, 2004. The principal balance of the agreement was \$216,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 6,208	\$ 216,000
Totals	<u>\$ 6,208</u>	<u>\$ 216,000</u>

- J. On December 1, 1999, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$315,625. The agreement requires variable monthly payments for 60 months to be paid in full April 20, 2005. The principal balance of the agreement was \$123,856 as of June 30, 2003.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 3,643	\$ 66,387
2005	1,028	57,469
Totals	<u>\$ 4,671</u>	<u>\$ 123,856</u>

- K. On January 11, 2002, Pike County entered into a lease agreement with Kentucky Association of County Leasing Trust Program for landfill equipment. The principal amount of the lease was \$3,775,724. The agreement requires variable monthly payments for six years to be paid in full January 20, 2008. The principal balance of the agreement was \$3,209,762 as of June 30, 2003.

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 114,911	\$ 589,893
2005	93,608	614,846
2006	69,220	640,854
2007	41,239	667,952
2008	19,779	696,217
Totals	<u>\$ 338,757</u>	<u>\$ 3,209,762</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 5. Financing Obligations (Continued)

Business-Type Activities (Continued)

- L. On January 17, 2003, Pike County entered into a lease agreement with Kentucky Association of Counties Leasing Trust Program for landfill equipment. The principal amount of the lease was \$625,000. The agreement requires monthly payments for 4 years to be paid in full January 20, 2007. The principal balance of the agreement was \$625,000 as of June 30, 2003. Lease payments for the remaining years are:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 18,702	\$ 150,000
2005	13,636	155,000
2006	8,423	160,000
2007	3,103	160,000
Totals	<u>\$ 43,864</u>	<u>\$ 625,000</u>

Note 6. General Obligation Bonds

In February 1997, the Pike County Public Properties Corporation, a component unit of the Pike County Fiscal Court, issued \$5,875,000 in refunding revenue bonds to refinance the Hall of Justice. The bonds require semiannual interest payments due August 20 and February 20 and one principal payment each year due August 20. The bonds will mature February 20, 2019. As of June 30, 2003, the principal amount outstanding was \$4,750,000. Bond payments for the remaining years are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Scheduled Interest And Other Fees</u>	<u>Scheduled Principal</u>
2004	\$ 261,976	\$ 215,000
2005	250,974	225,000
2006	239,241	235,000
2007	226,628	250,000
2008	213,240	260,000
2009-2013	830,771	1,540,000
2014-2018	338,785	1,625,000
2019	12,000	400,000
	<u>\$ 2,373,615</u>	<u>\$ 4,750,000</u>

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 6. General Obligation Bonds (Continued)

Changes In Long-term Liabilities

Long-term liability activity for the year ended June 30, 2003, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Primary Government:					
<u>Governmental Activities:</u>					
General Obligation Bonds	\$ 4,955,000	\$	\$ 205,000	\$ 4,750,000	\$ 215,000
Financing Obligations	5,718,140	4,325,000	1,084,549	8,958,591	2,060,840
Governmental Activities Long-term Liabilities	<u>\$ 10,673,140</u>	<u>\$ 4,325,000</u>	<u>\$ 1,289,549</u>	<u>\$13,708,591</u>	<u>\$ 2,275,840</u>
<u>Business-type Activities:</u>					
Financing Obligations	\$ 4,387,051	\$ 625,000	\$ 837,433	\$ 4,174,618	\$ 1,022,280
Business-type Activities Long-term Liabilities	<u>\$ 4,387,051</u>	<u>\$ 625,000</u>	<u>\$ 837,433</u>	<u>\$ 4,174,618</u>	<u>\$ 1,022,280</u>

Note 7. Interest On General Obligation Bonds

The Statement of Activities - governmental activities includes interest on general obligation bonds and financing obligations in the following functions: debt service \$432,346, roads \$120,512, general government \$5,807, protection to persons and property \$1,124, and social services \$218.

Note 8. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer, deferred benefit pension plan which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.34 percent. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System at 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 9. Insurance

For the fiscal year ended June 30, 2003, Pike County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 10. Changes in Accounting Principles and Prior Period Adjustment

The county has implemented Governmental Accounting Standards Board (GASB) Statements 33, 34 and 37, as they relate to the modified cash basis of accounting as described in Note 1, which has altered the format and content of the basic financial statements.

The beginning net asset balance for governmental activities has been restated to \$36,750,164 from \$6,442,248 as a result of inclusion of capital assets previously omitted of \$43,511,782 (net of accumulated depreciation), inclusion of \$10,673,140 in long-term debt previously omitted from the fund balance calculation and two funds (Solid Waste and Ford's Branch Landfill Closing) previously included as governmental funds with a combined fund balance of \$2,530,726, but are now included in business-type activities and treated as one enterprise fund.

The beginning net assets – business-type activities has been restated to \$116,309 from \$110,986 as a result of inclusion of capital assets previously omitted of \$1,861,648 (net of accumulated depreciation), inclusion of \$4,387,051 in long-term debt previously omitted from the fund balance calculation and two funds (Solid Waste and Fords Branch Landfill Closing) previously included as governmental funds with a combined fund balance of \$2,530,726, but are now included in business-type activities.

The beginning net assets – component unit has been restated to \$223,346 from \$367,321 as a result of a decrease in cash and cash equivalents of \$200,331 and the inclusion of capital assets previously omitted of \$56,356 (net of accumulated depreciation).

Note 11. Estimated Infrastructure Historical Cost

Infrastructure historical cost is an estimate. The primary government estimated the year infrastructure was built by determining when a major reconstruction had been done on infrastructure. Then current year construction cost was deflated back to this estimated year of construction or reconstruction to arrive at estimated historical cost.

Note 12. Landfill Closure and Post-Closure Costs

401 KAR 48:310 Section 2 and 3 requires the owner or operator of a landfill to have a detailed written estimate, in current dollars, the cost of hiring a third party to close the solid waste disposal site and to conduct each phase of closure care monitoring and maintenance in accordance with the closure plan. The Ford's Branch Landfill closure plan currently calls for six phases. As of June 30, 2003, 79 percent of phase four of the landfill capacity had been used.

PIKE COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2003
(Continued)

Note 12. Landfill Closure and Post-Closure Costs (Continued)

Pike County must comply with established state and federal closure procedures and must perform maintenance and monitoring procedures at the site for 30 years after closure. Estimated closure costs total \$2,500,000, and estimated post closure care costs total \$10,000 per year for 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. Since the financial statements are prepared on a modified cash basis of accounting and in accordance with the laws of Kentucky, no liability has been recognized for closure or post closure costs.

The fiscal court is required by state and federal laws and regulations to make annual contributions to finance closure and post-closure care. The fiscal court deposits \$130,000 of solid waste receipts into an account reserved for the landfill closing. At June 30, 2003, the Ford's Branch Landfill Closing activity had a cash balance of \$1,482,705.

The Ford's Branch Landfill is scheduled to close in the year 2010. It is anticipated that sufficient funds will be available in the Ford's Branch Landfill Closing Account to pay estimated closures and post-closure costs.

Note 13. Property Taxes

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
REQUIRED SUPPLEMENTARY INFORMATION

For The Year Ended June 30, 2003

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis

For The Year Ended June 30, 2003

	GENERAL FUND			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
REVENUES				
Taxes	\$ 3,893,589	\$ 3,828,166	\$ 3,882,332	\$ 54,166
In Lieu Tax Payments	36,500	24,357	46,014	21,657
Excess Fees	727,000	844,596	835,738	(8,858)
Licenses and Permits	190,000	217,108	216,862	(246)
Intergovernmental Revenue	23,050,000	15,495,983	3,809,706	(11,686,277)
Charges for Services	20,000	28,732	33,945	5,213
Miscellaneous	38,920	95,093	93,747	(1,346)
Interest	125,000	83,475	84,639	1,164
Total Revenues	28,081,009	20,617,510	9,002,983	(11,614,527)
EXPENDITURES				
General Government	4,479,937	5,542,016	4,386,472	1,155,544
Protection to Persons and Property	347,580	114,826	528,964	(414,138)
General Health and Sanitation	11,366,300	11,353,600	1,822,806	9,530,794
Social Services	214,922	188,922	166,847	22,075
Recreation and Culture	527,862	646,690	494,062	152,628
Roads	142,789	117,123	95,958	21,165
Airports	74,645	79,645	76,372	3,273
Debt Service	5,115,000	5,056,003	2,009,333	3,046,670
Capital Projects	11,255,574	3,171,473	777,181	2,394,292
Administration	1,207,865	1,242,693	1,184,355	58,338
Total Expenditures	34,732,474	27,512,991	11,542,350	15,970,641
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	(6,651,465)	(6,895,481)	(2,539,367)	4,356,114
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds	5,000,000	5,000,000	2,075,000	(2,925,000)
Transfers From Other Funds	1,444,438	1,930,415	1,185,000	(745,415)
Transfers To Other Funds	(1,949,771)	(2,065,849)	(1,815,365)	250,484
Total Other Financing Sources (Uses)	4,494,667	4,864,566	1,444,635	(3,419,931)
Net Changes in Fund Balances	(2,156,798)	(2,030,915)	(1,094,732)	936,183
Fund Balances - Beginning	2,156,798	2,030,915	2,030,915	
Fund Balances - Ending	\$	\$ 0	\$ 936,183	\$ 936,183

PIKE COUNTY
BUDGETARY COMPARISON SCHEDULES - MAJOR FUNDS
Required Supplementary Information
Modified Cash Basis
For The Year Ended June 30, 2003
(Continued)

ROAD AND BRIDGE FUND				
	<u>Budgeted Amounts</u>		<u>Actual Amounts, (Budgetary Basis)</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes	\$ 125	\$ 25	\$ 52	\$ 27
Intergovernmental Revenue	2,598,250	4,409,402	4,009,812	(399,590)
Miscellaneous	50,000	115,216	95,217	(19,999)
Interest			9,471	9,471
Total Revenues	<u>\$ 2,648,375</u>	<u>\$ 4,524,643</u>	<u>\$ 4,114,552</u>	<u>\$ (410,091)</u>
EXPENDITURES				
Roads	3,537,331	6,694,500	6,060,990	633,510
Administration	792,405	893,127	877,858	15,269
Total Expenditures	<u>4,329,736</u>	<u>7,587,627</u>	<u>6,938,848</u>	<u>648,779</u>
Excess (Deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(1,681,361)</u>	<u>(3,062,984)</u>	<u>(2,824,296)</u>	<u>238,688</u>
OTHER FINANCING SOURCES (USES)				
Financing Obligation Proceeds		200,000	4,250,000	4,050,000
Transfers From Other Funds	2,381,302	3,340,662	3,267,052	(73,610)
Transfers To Other Funds	<u>(744,104)</u>	<u>(744,104)</u>	<u>(699,600)</u>	<u>44,504</u>
Total Other Financing Sources (Uses)	<u>1,637,198</u>	<u>2,796,558</u>	<u>6,817,452</u>	<u>4,020,894</u>
Net Changes in Fund Balances	(44,163)	(266,426)	3,993,156	4,259,582
Fund Balances - Beginning	<u>44,163</u>	<u>266,426</u>	<u>266,426</u>	
Fund Balances - Ending	<u>\$</u>	<u>\$</u>	<u>\$ 4,259,582</u>	<u>\$ 4,259,582</u>

**PIKE COUNTY
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

For The Year Ended June 30, 2003

Note 1. Budgetary Information

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

Note 2. Reconciliation of Required Supplementary Information to Statement of Revenues Expenditures, and Changes in Fund Balances

General fund debt service expenditures and financing obligation proceeds reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Modified Cash Basis do not agree to amounts reported on the General Fund Budgetary Comparison Schedule – Major Funds because of short-term borrowing of \$2,000,000. The \$2,000,000 was borrowed and repaid during the 2003 fiscal year.

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Jail Fund	LGEA Fund	Forestry Fund	Local Government Economic Development Fund	Maintenance Garage Fund
ASSETS					
Cash and Cash Equivalents	\$ 54,332	\$ 554,144	\$ 82	\$ 1,419,042	\$ 3,362
Total Assets	<u>\$ 54,332</u>	<u>\$ 554,144</u>	<u>\$ 82</u>	<u>\$ 1,419,042</u>	<u>\$ 3,362</u>
FUND BALANCES					
Fund Balances:					
Reserved for:					
Encumbrances	\$ 20,553	\$ 15,999	\$	\$	\$ 26,562
Debt Service					
Unreserved:					
Special Revenue Funds	<u>33,779</u>	<u>538,145</u>	<u>82</u>	<u>1,419,042</u>	<u>(23,200)</u>
Total Fund Balances	<u>\$ 54,332</u>	<u>\$ 554,144</u>	<u>\$ 82</u>	<u>\$ 1,419,042</u>	<u>\$ 3,362</u>

PIKE COUNTY
COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -
MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003
(Continued)

Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
<u>\$ 478,050</u>	<u>\$ 2,509,012</u>
<u><u>\$ 478,050</u></u>	<u><u>\$ 2,509,012</u></u>
\$ 478,050	\$ 63,114 478,050
<u> </u>	<u>1,967,848</u>
<u><u>\$ 478,050</u></u>	<u><u>\$ 2,509,012</u></u>

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PIKE COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003

PIKE COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information

For The Year Ended June 30, 2003

	Jail Fund	LGEA Fund	Federal Grant Fund	Forestry Fund
REVENUES				
Taxes	\$	\$	\$	\$ 6,542
Intergovernmental	987,916	5,990,907	316,652	
Charges For Services		77		
Miscellaneous	145,272	1,808		
Interest	8,465			
Total Revenues	<u>1,141,653</u>	<u>5,992,792</u>	<u>316,652</u>	<u>6,542</u>
EXPENDITURES				
General Government		146,310		
Protection to Persons and Property	1,549,435	415,769		8,208
General Health and Sanitation		700,017		
Social Services		641,219		
Recreation and Culture		145,036		
Other Transportation Facilities & Services		13,159		
Debt Service		357,527		
Capital Projects			472,085	
Administration	474,321	108,752		
Total Expenditures	<u>2,023,756</u>	<u>2,527,789</u>	<u>472,085</u>	<u>8,208</u>
Excess (deficiency) of Revenues Over Expenditures Before Other Financing Sources (Uses)	<u>(882,103)</u>	<u>3,465,003</u>	<u>(155,433)</u>	<u>(1,666)</u>
OTHER FINANCING SOURCES (USES)				
Transfers From Other Funds	879,259			
Transfers To Other Funds		(3,678,032)		
Total Other Financing Sources (Uses)	<u>879,259</u>	<u>(3,678,032)</u>		
Net Change in Fund Balances	(2,844)	(213,029)	(155,433)	(1,666)
Fund Balances - Beginning	57,176	767,173	155,433	1,748
Fund Balances - Ending	<u>\$ 54,332</u>	<u>\$ 554,144</u>	<u>\$</u>	<u>\$ 82</u>

PIKE COUNTY
COMBINING STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES -
NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS
Other Supplementary Information
For The Year Ended June 30, 2003
(Continued)

Local Government Economic Development Fund	Maintenance Garage Fund	Public Properties Corporation Bond Fund	Total Non-Major Governmental Funds
\$	\$	\$	\$ 6,542
			7,295,475
			77
1,425,945	69,186	239,490	1,881,701
1,514		25,788	35,767
<u>1,427,459</u>	<u>69,186</u>	<u>265,278</u>	<u>9,219,562</u>
162,529			308,839
			1,973,412
			700,017
			641,219
			145,036
	1,065,768		1,078,927
		477,294	834,821
			472,085
	223,579		806,652
<u>162,529</u>	<u>1,289,347</u>	<u>477,294</u>	<u>6,961,008</u>
1,264,930	(1,220,161)	(212,016)	2,258,554
	1,223,320	211,730	2,314,309
			(3,678,032)
	<u>1,223,320</u>	<u>211,730</u>	<u>(1,363,723)</u>
1,264,930	3,159	(286)	894,831
154,112	203	478,336	1,614,181
<u>\$ 1,419,042</u>	<u>\$ 3,362</u>	<u>\$ 478,050</u>	<u>\$ 2,509,012</u>

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PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS
For The Year Ended June 30, 2003

PIKE COUNTY
BALANCE SHEET - GOVERNMENTAL FUND - COMPONENT UNIT - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Pike County Interlocal 911 Board Fund
ASSETS	
Cash and Cash Equivalents	<u>\$ 104,062</u>
Total assets	<u><u>\$ 104,062</u></u>
FUND BALANCE	
Fund Balance:	
Unreserved	<u>\$ 104,062</u>
Total Fund Balance	<u><u>\$ 104,062</u></u>

Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets:

Total Fund Balance	\$ 104,062
Amounts reported for component unit in the statement of net assets are different because:	
Capital assets (net of accumulated depreciation) used in component unit are not financial resources and therefore are not reported in the funds.	<u>52,325</u>
Net Assets Of Component Unit	<u><u>\$ 156,387</u></u>

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PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

PIKE COUNTY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUND - COMPONENT UNITS - MODIFIED CASH BASIS

For The Year Ended June 30, 2003

	Pike County Interlocal 911 Board Fund
	<u> </u>
REVENUES	
Charges for Services	\$ 469,071
Interest	1,936
Total Revenues	<u>471,007</u>
EXPENDITURES	
Protection to Persons and Property	202,147
Administration	331,788
Total Expenditures	<u>533,935</u>
Excess (deficiency) of Revenues Over Expenditures Before Financing Sources (Uses)	<u>(62,928)</u>
Net Change in Fund Balances	(62,928)
Fund Balances - Beginning	166,990
Fund Balances - Ending	<u><u>\$ 104,062</u></u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balance of Governmental Funds to the Statement of Activities:**

Net Change in Fund Balances - Total Governmental Fund	\$ (62,928)
Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets are allocated over their useful lives and reported as depreciation expense.	
Depreciation Expense	(4,031)
Change in Net Assets of Governmental Activities	<u><u>\$ (66,959)</u></u>

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PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended June 30, 2003

**PIKE COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Fiscal Year Ended June 30, 2003

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Pike County. The auditor's report also expresses a qualified opinion on the discretely presented component unit of Pike County.
2. No reportable conditions relating to the audit of the financial statements are reported in the Independent Auditor's Report.
3. No instances of noncompliance material to the financial statements of Pike County were disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Pike County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Pike County reported in Part C of this schedule.
7. The program tested as a major program was: Disaster and Emergency Assistance Grant – May 2002 Flood CFDA # 83.544
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Pike County was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None.

PRIOR YEAR FINDINGS FINANCIAL STATEMENT AUDIT

None.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM AUDIT

None.

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PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Other Supplementary Information

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2003

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
 Cash Programs:		
 <u>U.S. Department of Housing and Urban Development</u>		
 Passed-Through State Department Of Local Government:		
Community Development Block Grant-		
Phelps/Buskirk Sewage (CFDA #14.219)	96-046	\$ 316,652
 <u>U. S. Department of the Interior</u>		
 Passed-Through State Department of Natural Resources		
Abandoned Mine Land Reclamation Programs-		
Feds Creek/Mouthcard Water Supply (CFDA #15.252)	12-34-600-FMAO- E415-04	1,673,506
 <u>U. S. Department of Justice</u>		
 Passed-Through State Justice Cabinet:		
Juvenile Justice Incentive Block Grant (CFDA 16.523)	2002 - JB-BX-0021	24,936

PIKE COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Fiscal Year Ended June 30, 2003
Other Supplementary Information
(Continued)

Federal Grantor		
Program Title	Pass-Through	
<u>Grant Name (CFDA #)</u>	<u>Grantor's Number</u>	<u>Expenditures</u>
<u>U.S. Federal Emergency Management Agency</u>		
Passed-Through State Department		
of Military Affairs:		
Disaster and Emergency		
Assistance Grants-		
Public Assistance Grant - August 2001 Flood		
(CFDA #83.544)	FEMA-1388-DR-KY	\$ 589,809
Public Assistance Grant - May 2002 Flood		
(CFDA #83.544)	FEMA-1414-DR-KY	1,355,583
Public Assistance Grant - February 2003 Flood		
(CFDA #83.544)	FEMA-1454-DR-KY	147,074
Coordinator Salary		
(CFDA #83.551)	N/A	<u>7,882</u>
Total US Federal Emergency Management Agency		<u>\$ 2,100,348</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 4,115,442</u></u>

PIKE COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Other Supplementary Information

Fiscal Year Ended June 30, 2003

Note 1 - The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Pike County, Kentucky and is presented on a modified cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations.

Note 2 - The federal expenditures for Abandoned Mine Land Reclamation Program and Community Development Block Grant – Phelps/Buskirk Sewage Project include grants to the subrecipient as follows:

<u>Subrecipient</u>	<u>CFDA Number</u>	<u>Pass-through Grant Amount</u>
Mountain Water District	14.219	\$ 316,652

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**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Pike County, Kentucky, as of and for the year ended June 30, 2003, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated April 27, 2005. The report on the discretely presented component unit was qualified because of the omission of a component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Pike County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing opinions on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such opinions. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pike County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 27, 2005

**REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable William M. Deskins, Pike County Judge/Executive
Members of the Pike County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Pike County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. Pike County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Pike County's management. Our responsibility is to express an opinion on Pike County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Pike County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Pike County's compliance with those requirements.

In our opinion, Pike County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of Pike County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Pike County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read 'Crit Luallen', with a stylized, flowing script.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
April 27, 2005

**CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

PIKE COUNTY FISCAL COURT

**For The Fiscal Year Ended
June 30, 2003**

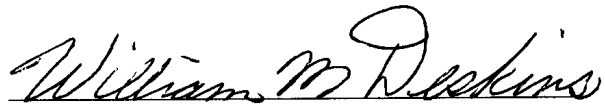
CERTIFICATION OF COMPLIANCE

LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

PIKE COUNTY FISCAL COURT

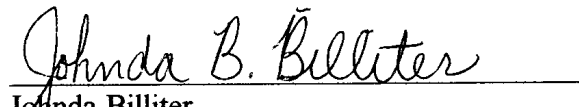
For The Fiscal Year Ended June 30, 2003

The Pike County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



William Deskins

County Judge/Executive



Joinda Billiter

County Treasurer